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Drew Clark: Critics of Utah's low-tax, business-friendly policies miss the mark

By Drew Clark , Deseret News
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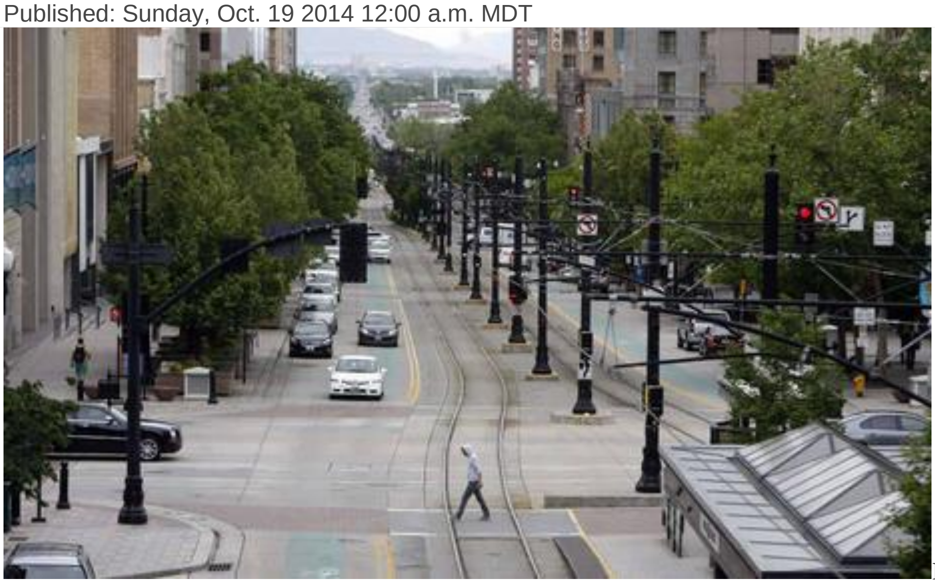

Photo of Main Street in Salt Lake City taken on Wednesday, May 29, 2013. (Laura Seitz, Deseret News)

SALT LAKE CITY — In order to have the best climate for economic growth and opportunity, a state need businesses that are willing to invest their capital and employees that are willing to invest in their talents, skills and labor.

Since becoming governor in 2009, Gov. Gary Herbert's vision for the state has been straightforward: "Utah will lead the nation as the best performing economy and be recognized as a premier global business destination."

Today, Utah enjoys an unemployment rate of 3.6 percent, the second lowest in the nation. That's why it's hard to fault Herbert's focus on economic development through a low-tax, business-friendly environment that has successfully enticed companies to the Beehive State.

A key anchor of Herbert's efforts to polish Utah's global brand has been the Governor's Office of Economic Development (GOED). Previously headed by Spencer Eccles, now with a private equity firm, and currently led by former Utah Valley Chamber of Commerce chief Val Hale, GOED serves as an emissary for all the things great about Utah's economic performance.

Going after GOED is a direct assault on Herbert's greatest political asset. And that's why Tuesday's report from State Auditor John Dougall could gain traction, even though the evidence to support the audit's claims are rather thin gruel.

Titled "A Performance Audit of GOED's Corporate Incentives Program," the report is a criticism of one of GOED's key programs, Economic Development Tax Increment Financing. It was created when the Legislature passed the Economic Development Incentives Act in 2005.

The core of EDTIF is a tax credit for businesses. That effectively lowers their state income tax rates after completion of specific performance objectives that bring new jobs and investment to Utah. The notion behind the words "tax increment" is that the tax credit won't be paid unless businesses locate facilities and hire people that they wouldn't have otherwise done.

"EDTIF has played a significant role in attracting, retaining and growing companies like Adobe, IM Flash, Goldman Sachs, Varian, Edward Lifesciences, Boeing, Merit Medical and Procter & Gamble," said Hale, testifying on Tuesday at a presentation to the Legislature's Executive Appropriations Committee. "Imagine what our state would be like without those companies."

The audit highlights the big incentive numbers: Since 2006, Utah has committed to more than $600 million in tax credits for businesses that meet the economic development criteria.

Among those criteria are the creation of at least 50 jobs that pay wages at least 125 percent of an urban county's average, and 100 percent of a rural county's average; that a new business project must be in competition with locations in other states; and that the maximum tax credit be 30 percent of the state's taxes over the typical five- to 10-year incentive life.

The audit says that GOED has reduced its corporate incentive requirements and hasn't put in strict enough controls to verify post-performance wages. The audit paints a picture of an agency that has "misled stakeholders about the projected wages of jobs it incents."

Speaking at Tuesday's hearing, Dougal, who criticized HB11 when previously in the Legislature, urged his former colleagues to "exercise your oversight as a legislative body."

Hale pushed back. He pointed to an independent audit of GOED by Tanner LLC, released on Oct. 10, in which auditors "did not encounter any instances of non-compliance with relevant ethical, statutory, contractual, or procedural requirements."

And he played up a separate finding from a January report by Haynie & Company that "the average new state revenue earned per dollar spent was calculated to be $3.19."

Referring to the state auditor's report, Hale said: "One of the few times the audit report points out revenue is when it mentions that the state has $600 million in commitments through the EDTIF program. Honestly, we wish it were three times that much. Why? Because the state doesn't pay a dime until after the taxes have been collected. In other words, in order for the state to issue $600 million in tax credits, it would have already collected $1.9 billion of *new* revenue. Isn't that a good thing?"

The EDTIF program isn't the only tool in GOED's toolkit, although it has — the agency says — been responsible for attracting or retaining 127 companies, bringing in about 13,000 jobs, and generating $128 million in new tax revenue for the state. The agency also administers a life sciences tax credit, business resource centers for entrepreneurs, an international trade and diplomacy office, and partners with other entities like the Economic Development Corporation of Utah and the Utah Science Technology and Research Initiative.

It can be easy to point fingers at a program that appears to reduce state tax revenue and consider it a glass 30 percent empty. That misses the larger truth that there is now something — a glass 70 percent full — that wouldn't have been there without it.

Drew Clark can be reached via email: drew@drewclark.com, or on Twitter @drewclark, or atwww.drewclark.com.